MULTIMEDIA UNIVERSITY

STUDENT ID NO

MULTIMEDIA UNIVERSITY

SUPPLEMENTARY EXAMINATION

TRIMESTER 1, 2015/2016

PPE0035 – PRINCIPLES OF MICROECONOMICS

(Foundation in Management)

17 NOV 2015
2.30 PM – 4.30 PM
(2 HOURS)

INSTRUCTIONS TO STUDENT

1. This question paper consists of **THIRTEEN** pages excluding cover page.
2. Answer **ALL** questions in **Section A** and **B**.
3. The answers for **Section A** should be shaded on the OMR sheet. The answers for **Section B** should be written in the Answer Booklet.

SECTION A: MULTIPLE CHOICE QUESTIONS [50 MARKS]

Instructions: Answer **ALL** questions in this section. Shade the answers on the **OMR** sheet.

1. The question "Should movies or compact discs be produced?" is an example of the _____ question.
   A. who
   B. how
   C. what
   D. where

2. Which of the following is a microeconomics topic?
   A. The cause of recession.
   B. The reasons Kathy buys less orange juice.
   C. The reasons for a decline in average prices.
   D. The effect of the government budget deficit on inflation.

3. A point inside a production possibility frontier _____.
   A. is unattainable
   B. indicates that some resources are unemployed
   C. is better than points on the production possibility frontier
   D. implies that too much capital and not enough labour are being used

4. Which of the following is referring to the law of demand?
   A. An increase in the price of soda causes a decrease in the quantity demanded of soda.
   B. A decrease in the price of milk causes a decrease in the quantity demanded of milk.
   C. A decrease in the price of juice causes no change in the quantity demanded of juice.
   D. An increase in the price of tapes causes an increase in the quantity demanded of tapes.

5. If good A is a normal good and consumer income rises, the equilibrium price _____.
   A. and quantity will increase
   B. and quantity will decrease
   C. will fall and the equilibrium quantity will decrease
   D. will rise and the equilibrium quantity will not change

6. The price will fall and the equilibrium quantity may increase, decrease or stay the same when _____.
   A. both demand and supply increase
   B. both demand and supply decrease
   C. demand increases and supply decreases
   D. demand decreases and supply increases

Continued...

7. Suppose an increase in the price of apples from RM4.50 to RM5.50 per bushel decreases the quantity demanded from 11,500 to 10,500 bushels. In this range of the demand curve, the price elasticity of demand is _____.
   A. 0.45
   B. 1.0
   C. 2.0
   D. 1 000

8. The more substitutes available, the _____.
   A. the smaller the price elasticity of demand
   B. the larger the income elasticity of demand
   C. the larger is the price elasticity of demand
   D. the smaller the income elasticity of demand

9. If a fall in the price of good A causes the demand for good B to increase, _____.
   A. A and B are substitutes
   B. A and B are complements
   C. A is a substitute for B, but B is a complement to A
   D. B is a substitute for A, but A is a complement to B

10. If a rise in the price of peaches from RM5 to RM7 a bushel increases the peaches supplied from 3,000 to 5,000 bushels, _____.
    A. supply is elastic
    B. demand is elastic
    C. supply is inelastic
    D. demand is inelastic

11. If the income elasticity of demand for a good is negative, it must be a /an _____ good.
    A. elastic
    B. luxury
    C. normal
    D. inferior

12. The short run supply is likely to be _____ when there is a permanent changes in prices.
    A. less elastic than both momentary and long run supply
    B. more elastic than both momentary and long run supply
    C. more elastic than momentary supply but less elastic than long run supply
    D. less elastic than momentary supply but more elastic than long run supply

Continued...

13. Demand must be _____ if a decrease in price results in an increase in total revenue.
    A. elastic
    B. inelastic
    C. unit elastic
    D. none of the above

14. Which of the following is likely to have the lowest price elasticity of demand?
    A. A new car.
    B. An automobile.
    C. A new Ford Mustang.
    D. A new Mercedes automobile.

15. Diminishing marginal utility states that _____.
    A. Romeo will enjoy his second hotdog bun less than the first
    B. beyond a certain point, total utility decreases as income rises
    C. the price of two hotdogs buns is less than twice the price of one
    D. the utility from one hotdog bun exceeds the utility from two hotdog buns

16. Frank will experience consumer equilibrium when _____.
    A. he spends all his income
    B. he purchases the goods he needs
    C. the slope of all his demand curves are equal
    D. he allocates his income such that his utility is maximised

Refer to ***Exhibit 1*** for question no. 17. ***Exhibit 1*** shows the data for Sofea's utility from consuming mangoes and potato chips.

Mangoes	Utility	Potato chips	Utility
1	5	1	10
2	9	2	18
3	12	3	24
4	14	4	28

Exhibit 1

17. The price of mango is RM1 and the price of potato chips is RM2. If Sofea's income is RM9, she will consume _____.
    A. 1 mango and 4 potato chips
    B. 3 mangoes and 3 potato chips
    C. 5 mangoes and 2 potato chips
    D. No mangoes and 4 potato chips

Continued...

18. The diamond-water paradox can be explained by _____.
    A. the fact that utility cannot be measured
    B. the low price of water relative to diamonds
    C. distinguishing between total utility and marginal utility
    D. the high level of marginal utility for water relative to diamonds

19. Jason can consume kiwis and pineapples. If he increases his consumption of pineapples, his _____.
    A. total utility from kiwis increases
    B. marginal utility from kiwis decreases
    C. total utility from pineapples decreases
    D. marginal utility from pineapples decreases

20. An indifference curve diagram has movies on the vertical axis and popcorns on the horizontal axis. As the consumption of popcorns increases, the marginal rate of substitution _____ and the indifference curve become _____.
    A. falls; flatter
    B. rises; flatter
    C. falls; steeper
    D. rises; steeper

21. The _____ as a consumer moves up and to the left along an indifference curve.
    A. relative prices of both goods fall
    B. consumer's total satisfaction does not change
    C. consumer's total satisfaction generally decreases
    D. income required to buy the combinations of the goods always increases

22. A budget line is drawn with used cars on the vertical axis and new cars on the horizontal axis. If taxes are being imposed on new cars, the _____.
    A. budget line will be flatter
    B. budget line will be steeper
    C. indifference curve will be flatter
    D. indifference curve will be steeper

23. Daisy owns a firm that has an average total cost (ATC) of RM80 and average variable cost (AVC) of RM75. Given that the output is 50, its total fixed cost (TFC) will be _____.
    A. less than RM100
    B. more than RM300
    C. between RM100 and RM200
    D. between RM200 and RM300

Continued...

24. Marginal cost (MC) will _____ as output increases.
    A. remain constant because fixed costs are constant
    B. increase because of the law of increasing returns
    C. decrease because of the law of diminishing returns
    D. increase because of the law of diminishing returns

25. Which of following curve intersects the ATC curve at its minimum point?
    A. The MP curve.
    B. The MC curve.
    C. The AFC curve.
    D. The AVC curve.

26. There are _____ when long run average costs are increasing.
    A. constant marginal costs
    B. constant returns to scale
    C. increasing returns to scale
    D. decreasing returns to scale

27. The _____ when the marginal product of labour curve is below the average product of labour curve.
    A. average product of labour curve is rising
    B. average product of labour curve is falling
    C. the total product curve has negative slope
    D. the firm experiences decreasing returns to scale

28. _____ when average variable cost (AVC) is at minimum at the same output.
    A. Average product (AP) is at minimum
    B. Average product (AP) is at maximum
    C. Marginal product (MP) is at minimum
    D. Marginal product (MP) is at maximum

29. A firm will experience economies of scale when _____.
    A. transaction costs are high
    B. transaction costs are low
    C. hiring additional inputs does not raise the price of the inputs
    D. the cost of producing a unit of output falls as more output is produced

30. Celine is a freelance reporter who could work for a newspaper at RM25,000 per annum. She decided to work for herself for RM40,000 a year. Her business expenses are RM1,000 for writing materials and RM12,000 for rent. Celine's economic profit from working as a freelance reporter is _____.
    A. RM2,000
    B. RM15,000
    C. RM25,000
    D. RM28,000

Continued...

31. The short run is a period of time in which _____.
    A. all inputs are fixed
    B. input prices are fixed
    C. output prices are fixed
    D. at least one input is fixed

32. The elasticity of demand for the product of a single firm is _____ in perfect competition.
    A. zero because the firm produces a unique product
    B. infinite because the firm produces unique product
    C. zero because many other firms produce identical product
    D. infinite because many other firms produce identical product

33. A firm's shutdown point is the level of output and price where the firm is just covering its total _____.
    A. fixed cost since a firm cannot ignore its fixed cost
    B. fixed cost since a firm cannot ignore its variable cost
    C. variable cost since a firm cannot ignore its fixed cost
    D. variable cost since a firm cannot ignore its variable cost

Refer to ***Exhibit 2*** for question no. 34.

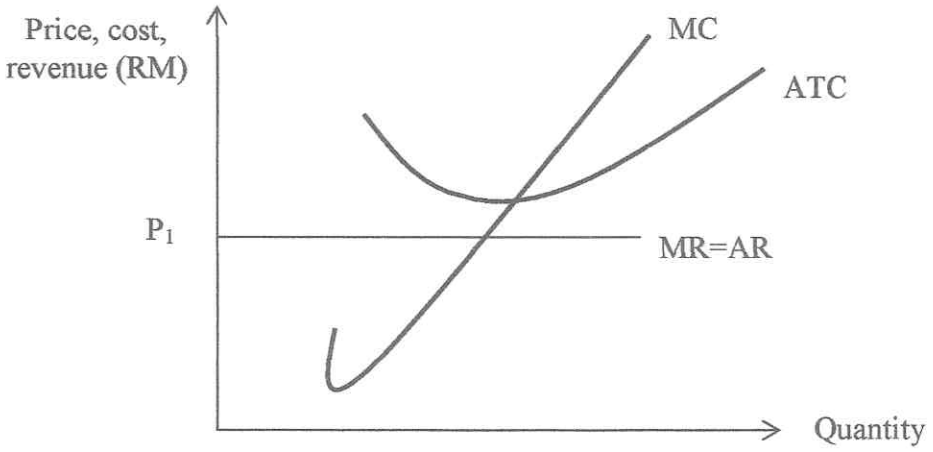

Exhibit 2

34. Given that the market price is at P_1. The long run market will show a/an _____.
    A. increase in supply
    B. decrease in supply
    C. increase in demand
    D. decrease in demand

Continued...

35. Alice's firm is a perfectly competitive firm. Its average revenue exceeds its marginal cost at its current output. Alice's firm will have to _____.
    A. reduce its price
    B. increase its price
    C. increase its output
    D. decrease its output

36. The _____ is the same as the short run supply curve.
    A. average cost curve which is above its shutdown point
    B. average cost curve which is above the horizontal axis
    C. marginal cost curve which is above the horizontal axis
    D. marginal cost curve which is above its shutdown point

Refer to ***Exhibit 3*** for question no. 37.

Output (jacket/hour)	Total cost of production (RM/hour)
0	20
1	25
2	35
3	50
4	70
5	95

Exhibit 3

37. ***Exhibit 3*** shows the total cost of producing jackets in Hanson's factory. The market for jackets is perfectly competitive and it is currently selling at RM20 each. What is Hanson's profit maximising output?
    A. 1 jacket an hour.
    B. 3 jackets an hour.
    C. 4 jackets an hour.
    D. 5 jackets an hour.

38. All of the following are features of a monopoly **EXCEPT** _____.
    A. there are no close substitutes
    B. there are no barriers to entry or exit
    C. one firm is the only supplier of the good
    D. location may restrict their market power

39. A patent grants _____.
    A. the rights to practice a profession
    B. a guarantee of quality to customers
    C. an exclusive rights to an inventor of a product
    D. control over unique source or supply of raw materials

Continued...

40. A monopoly firm is producing in the _____ if it expands output, lowers price and its total revenue falls.
    A. elastic range of its supply curve
    B. elastic range of its demand curve
    C. inelastic range of its supply curve
    D. inelastic range of its demand curve

41. A monopolist's average revenue is always _____.
    A. equal to marginal revenue
    B. equal to the price of its product
    C. less than the price of its product
    D. greater than the price of its product

42. Which of the following statements refer to the price and marginal cost of competitive and monopolised markets?
    A. In competitive markets price equals marginal cost; in monopolised markets price equals marginal cost.
    B. In competitive markets price exceeds marginal cost; in monopolised markets price equals marginal cost.
    C. In competitive markets price exceeds marginal cost; in monopolised markets price exceeds marginal cost.
    D. In competitive market price equals marginal cost; in monopolised markets price exceeds marginal cost.

Refer to ***Exhibit 4*** for question no. 43.

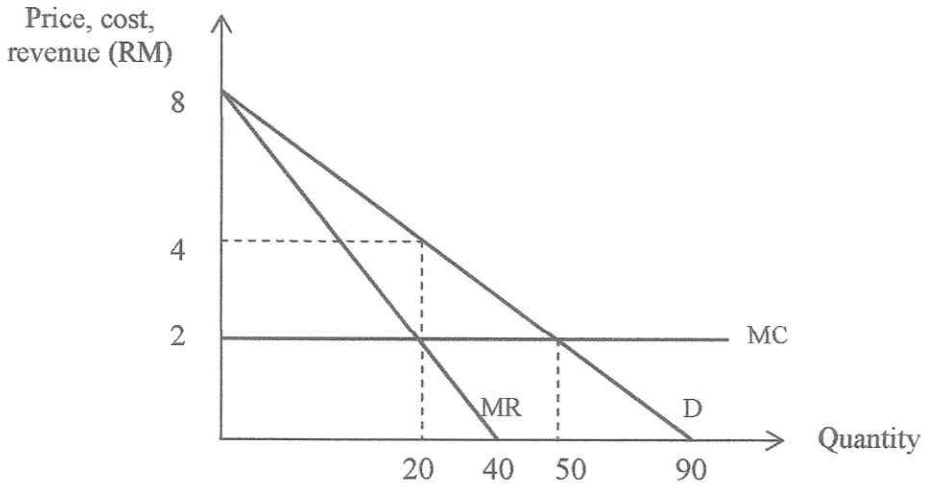

Exhibit 4

43. Refer to ***Exhibit 4,*** it shows a monopoly charges a single price. The deadweight loss will be _____.
    A. RM30
    B. RM60
    C. RM90
    D. RM120

Continued...

44. One of the requirements for a successful price discrimination is _____.
    A. there is an inelastic demand for a firm's output
    B. the ability to know exactly how much each consumer is willing to pay
    C. the ability to prevent low price consumers from reselling to high price consumers
    D. all of the above

45. A monopolistically competitive industry produce _____.
    A. competitive goods
    B. consumption goods
    C. homogeneous goods
    D. differentiated products

46. In the long run of a monopolistic competition, customers pay _____.
    A. less than the minimum average total cost (ATC)
    B. more than the minimum average total cost (ATC)
    C. the minimum average total cost (ATC) and the minimum average variable cost (AVC)
    D. the minimum average total cost (ATC) but not the minimum average variable cost (AVC)

47. When economic profit is positive in a hotel industry, hotels will _____.
    A. enter the industry and demand for the existing hotels will increase
    B. enter the industry and demand for the existing hotels will decrease
    C. exit the industry and demand for the remaining hotels will increase
    D. exit the industry and demand for the remaining hotels will decrease

48. According to the kinked demand curve theory, the gap in the _____ explains price rigidity in oligopoly.
    A. marginal cost curve
    B. marginal revenue curve
    C. marginal revenue and demand curve
    D. marginal revenue and marginal cost curve

49. Based on the kinked demand curve theory, each firm believes that if it raises its price, _____.
    A. other firms will not raise theirs
    B. its profit will rise by the same percentage
    C. the government will impose price controls
    D. the overall price level will rise by the same percentage

50. Which of the following is characteristic of oligopoly but **NOT** of monopolistic competition?
    A. Firms are profit maximisers.
    B. There is more than one firm in the industry.
    C. Each firm faces a downward sloping demand curve.
    D. The choices made by one firm have a significant effect on other firms.

Continued...

SECTION B: STRUCTURED QUESTIONS [50 MARKS]

Instructions: Answer **ALL** questions in this section. Write your answers in the Answer Booklet.

Question 1

Part A

Suppose that Alicia has RM60 to spend on burger and sandwich. Burger costs RM10 per meal and sandwich costs RM5 per unit. ***Exhibit 5*** shows Alicia's budget constraint and her indifference curves.

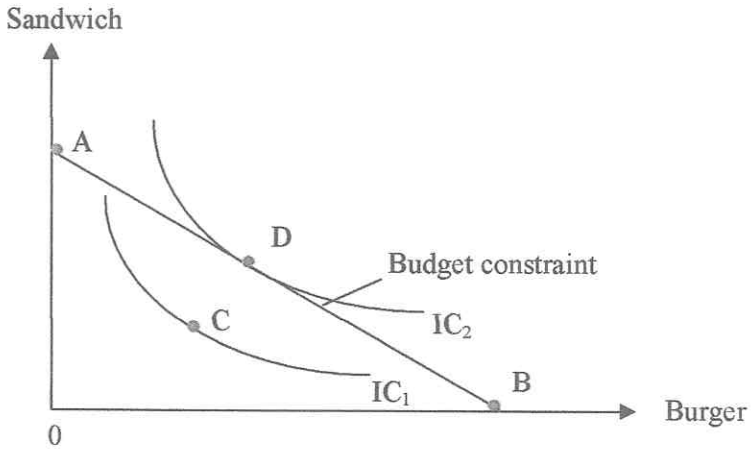

Exhibit 5

Based on ***Exhibit 5***,

a) calculate Alicia's real income in terms of sandwich and burger.

(3 marks)

b) which point would be Alicia's preference? Why?

(2 marks)

c) suppose Alicia buys 6 units of sandwich at point D. How many meals of burger would she buy?

(2 marks)

d) suppose that the price of sandwich increases to RM10 per unit. Calculate Alicia's real income in terms of sandwich.

(2 marks)

Continued...

Part B

Exhibit 6 shows Ronald's utility from Cola and noodles. Suppose that the price of a can of Cola is RM1.00 and the price of a dish of noodles is RM 4.00. Ronald has RM11.00 per week to spend on these two items.

Cola			Noodles		
No. of cans per week	Total utility	Marginal Utility	No. of dishes per week	Total utility	Marginal Utility
1	22	____	1	64	64
2	40	____	2	120	56
3	54	____	3	168	48
4	60	6	4	208	____
5	62	2	5	240	____
6	62	0	6	264	____

Exhibit 6

a) Complete ***Exhibit 6*** in the answer booklet provided.

(3 marks)

b) Compute marginal utility to price ratios for noodles and cola.

(6 marks)

c) If Ronald spends all his allowance on Cola and noodles, how many cans of cola and dishes of noodles will Ronald consume each week? Carefully explain how you arrived at your answers.

(2 marks)

[TOTAL 20 MARKS]

Question 2

Exhibit 7 shows the production cost curve of Jazz Company.

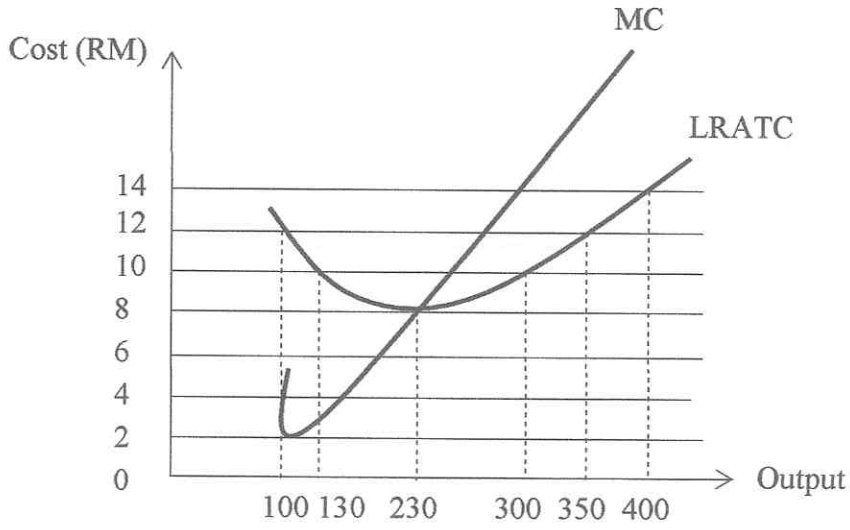

Exhibit 7

Continued...

Based on ***Exhibit 7***,

a) calculate the total cost (TC) of Jazz Company at the output level of 100 units, 130 units, 230 units, 300 units, 350 units and 400 units.

(6 marks)

b) calculate the marginal cost (MC) of Jazz Company when the production increases the output from 100 to 130 units, from 130 to 230 units, from 230 to 300 units, from 300 to 350 units and from 350 to 400 units.

(5 marks)

c) when the production increases its output from 0 to 230 units, what is the situation experiencing by Jazz Company? State **TWO** reasons that give rise to this situation.

(3 marks)

d) when Jazz Company produces more than 230 units, what can the firm predicts on its marginal return? Why?

(1 marks)

[TOTAL 15 MARKS]

Question 3

Exhibit 8 illustrates the production of Judy's pineapple tarts. Suppose pineapple tarts market is perfect competition.

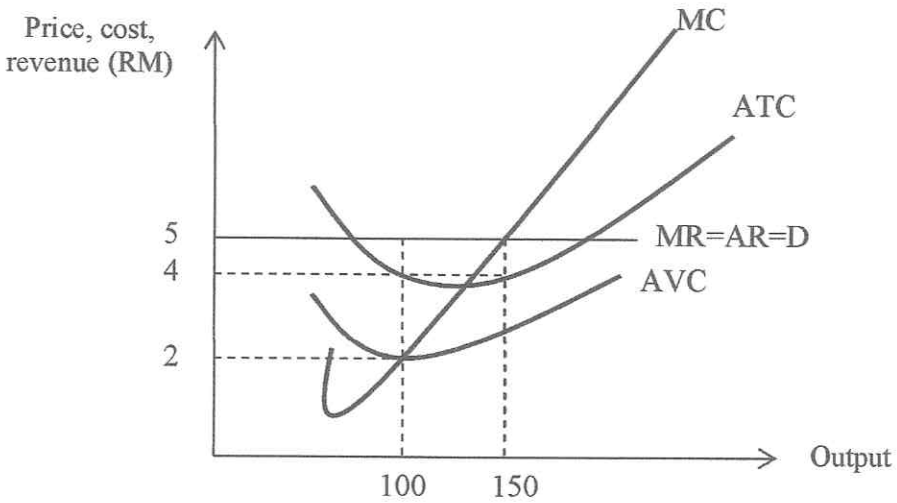

Exhibit 8

Based on ***Exhibit 8***,

a) if the market price of pineapple tart is RM5 per unit, how many pineapple tarts will Judy produce in order to maximise her profit?

(1 mark)

b) how much is the profit or loss at the profit maximisation output?

(3 marks)

c) what will happen to the pineapple tarts market in the long run? Briefly explain.

(5 marks)

Continued...

d) if the equilibrium price in the market is RM2, calculate Judy's total revenue and total cost? Is Judy earning economic profit at this price? Why?

(4 marks)

e) if the equilibrium price in the market is RM1, what is your advice to Judy?

(2 marks)

[TOTAL 15 MARKS]

End of Paper